CITY of SPRINGFIELD

POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO
840 Boonville
Springfield, Missouri 65801
(417) 839-7559

Minutes
July 17, 2014

1. Call to Order

Cowherd called the meeting to order at 8:35 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Josh Hartman	President	X	
Charlie Cowherd	Citizen	X	
Paul Carroll	Citizen	X	
James Gillette	Citizen		X
Marilyn Hill	Citizen	X	
Ron Hoffman	Retiree	X	
Tony Kelley	Fire		X
Gus Krafve	Citizen	X	
Scott Steck	Police	X	
Ed Cantrell (NV)	Retiree		X
Adam Carter (NV)	Fire	X	
Grant Dorrell (NV)	Police	X	
Mary Mannix-Decker (NV)	Finance	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Janell Manley (NV)	Administrative Director	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting.

Carter was the voting member in Kelley's absence.

2. Approval Meeting Minutes – June 12, 2014 (open session)

Cowherd made a motion to approve the June 12, 2014 minutes as presented; 2nd by Carroll. Vote all: Yes.

3. Approval of Financial Statement Ending May 31, 2014

Mannix-Decker reported on the following items of interest:

- The cash balance at the end of May was $3,654,207.

- The State Street S&P 500 Flagship NL Fund decreased by ($3,792,053). $5 million was transferred out so there was actually a positive gain on the investment. The return was even with the index at 2.35%.

- The State Street Russell 2000 NL Fund decreased by ($791,723). $1 million was transferred out so there was actually a positive gain on the investment. The return was 0.82% compared to the benchmark of 0.80%.

- Pictet increased by $748,781. The return was 1.46% compared to the index return of 1.62%.

- Wells Fargo had an increase of $1,708,395. The return was 2.57% compared to the benchmark of 3.49%. $1.2 million was transferred in.

- Galliard increased $415,459. The return was 1.01% compared to the benchmark of 0.92%.

- The US Tips NL Fund increased by $1,226,716. The return was 2.11% compared to the benchmark of 2.12%.

- Brandywine had an increase of $1,878,647. The fund returned 1.91% compared to the index return of 0.14%. $1.4 million was transferred into the fund.

- Pyramis had an increase of $328,317. The return was 3.26% compared to the index at 3.20%.

- The State Street Commodities NL Fund increased by $1,538,975. The return was -2.89% compared to the index at -2.87%. $2 million was transferred into the fund.

- Blackstone had an increase of $1,534,062. $1.4 million was transferred in. The fund returned 1.23% compared to the index return of 0.70%.

- Entrust had an increase of $1,147,801. The return was 1.18% compared to the index return of 0.70%. $1 million was transferred into the fund.

- Employee contributions for the month totaled $234,046 and employer contributions totaled $560,021. The May sales tax was $2,468,809.

- Gain/Loss in market value, including managers' fees was $3,943,377 for the month. Net increase to the Plan was $7,206,278.

- Benefit payments totaled $1,642,081. Refund of employee contributions totaled $248,568. Administrative expenses totaled $29,608.

- Total Net Assets at the end of May were $299,073,512, which is $5,286,022 increase over April. This is an 18% increase for the fiscal year to date.

Cowherd made a motion to approve the financial statement ending May 31, 2014; 2nd by Hoffman. Vote all: Yes.

4. Review of Retirement Calculations

Age & Service

Name	Department	Years of Service	Monthly Pension Amount	Partial Pension Amount
Robert Pitts	Police	24.38	$5,203.46	$4,162.77
John Albert	Fire	16.04	$2,786.55	$278.67

Cowherd made a motion to accept the calculations presented above; 2nd by Carroll. Vote all: Yes.

Final Checks

Name	Monthly Pension Amount	Final Check Amount
Ray Nichols	$4,542.63	$2,051.51
Arvil Beckerdite	$1,384.24	$714.45

Cowherd made a motion to accept the calculations presented above; 2nd by Carroll. Vote all: Yes.

5. Approval of Return of Contributions

Robert Pitts	Age & Service – 24.38 years	Police	$143,885.18
John House	Age & Service – 25 years	Fire	$100,612.51
John Albert	Age & Service – 16.04	Fire	$96,355.21

Carter made a motion to approve the return of contributions as presented above; 2nd by Krafve. Vote all: Yes, with the exception of Cowherd who voted no.

5. Galliard Presentation

Manley introduced Dave Ferry and Doug Rangel with Galliard Capital Management. The Plan has currently been with Galliard for around six years. Ferry explained Galliard's specialized fixed income strategies. They currently have $87.9 billion in AUM and have been in the business over 18 years. They have 242 investors nationwide and just over 100 employees. Their objective is to outperform the benchmark by +50 to +70 basis points before fees annually.

Rangel reported that Galliard has had solid performance this quarter, year-to-date and especially over the longer time periods. The three-year returns are 124 basis points over the benchmark and the five-year returns are 172 basis points over the benchmark. He said that is a little bit of a unique phenomenon due to the timing of when our portfolio funded with Galliard. The inception date was June 2008 and there has been significant healing since that date. Fixed income has done well in this environment and is positioned to do so as interest rates begin to rise.

Rangel explained the portfolio characteristics. The weighted average maturity is 4.87 years. Weighted average quality is AA. The yield to maturity is 2.27% and the effective duration is 4.02 years. The current strategy is underweight in treasury/agency and mortgage back securities, and overweight in credit, CMBS/ABS and other U.S. Government. For the second quarter of 2014, Galliard outperformed the benchmark by 30 basis points. The bulk was through sector allocation and also defensive security selection within MBS and credit issue selection was a positive as an allocation to below investment grade securities. Neutral duration with an overweight to the 5-7 year part of the curve was beneficial as the curve flattened over the quarter. Ferry and Rangel thanked the Board for allowing them to present. Presentation on permanent file.

Wichmer entered the meeting.

6. Chris Welsh – SPOA

Welsh is the vice-president of the SPOA. He stated that he is representing the majority of the active and retired participants in this Plan. He said that the SPOA feels that the DROP program needs to move forward. Welsh passed out copies of a comparison between two employees who were hired at 30-years-old. One retired after 20 years at age 50 and the other worked 25 years and was age 55. According to Welsh's calculation, the Plan would pay the 20-year employee $35,000 less than the 25-year employee. He said it is pretty much neutral on what the Pension will pay the employee. He said that he's not an actuary and can't predict how long someone will live. He's said he's very novice at all of this. Welsh also showed a calculation, based on his salary, if the interest is retained by the Plan to reduce the AFC. The return of contribution interest was calculated at 7.5%. He estimated that the total interest made by the ROC staying in the Plan an additional 5 years would be over $65,000. Welsh said that the interest made from the DROP and deferred payments would total over $120,000 in interest going into the Plan. He said he knows that there are many variables that he's not capable of doing. What he included in his handout is common sense that the members have brought to the SPOA. He feels the information furthers the request that the Pension Board complete a study to see if this will help or hurt the Plan. He feels it will help and the SPOA is requesting that the Pension Board move forward with the study.

Carroll questioned if an employee could retire any time after they enter into the DROP program. Welsh said yes, they are not locking into a five-year contract. Carroll said that we would not even come close to getting the 7.5% on the money left in the Plan. The reason is that we can't leave that money invested in the regular fund because a year from now someone could go in and retire and get the money back. So that money would not be earning what our assumed rate is. It would be earning whatever the current short-term interest rates are which right now are not good. That is something he would throw out there. Hartman added that you can't just leave that money comingled because for every person that drops out we have a defined liability to the Plan. That money would have to be separated out and invested differently. Short-term rates are about 0.15% currently. We would have to keep it separated knowing that the liability could exist tomorrow or a year from now. Carter questioned if it would have to be separated for the purpose of liquidity. Hartman said it would have to be. Dorrell questioned how that is any different than employees who are eligible now. The money isn't separated out? Carroll said it has to be done to remain cost-neutral. If you don't take it out it could work better or it could work worse so you have to pull it out so that it will always be the same going forward. What if the market decline during that period? Hartman said that nobody wants to hear that their ROC went down because the Fund lost money in a given period.

Dorrell questioned if they required employees to have 25 years of service before they are eligible to DROP. He said that takes all of the assumptions away. Carroll said the money would still have to be pulled out to keep it short-term. Carroll also questioned if anyone would have stayed past 25 years. Dorrell said that maybe one out of 400 would have stayed. Right now there is no reason to stay. He said that he wouldn't want the AFC to be any factor in it. Steck said that the proposal is that the interest earned off the money that remained in the Plan would count on the balance sheet against the AFC liability. Carroll said that anyone that would have stayed would make it not cost-neutral. You can't really determine if someone would have stayed. Manley said she wanted Welsh to clarify if the original proposal that SPOA wanted studied included the AFC part. Welsh said yes. Dorrell said that he thinks that is open for discussion. Manley said that is what the Board needs to know. Welsh said that he would anticipate that they would look at 20 and 25 year options. That's why there needs to be a study to determine what is cost-effective to the Plan. Welsh said that everything the SPOA has put together would only help the Plan. They aren't looking to cost the Plan anything. Dorrell said that maybe it's an option to give everyone their Pension money and they can still keep working.

Dorrell again stated that he doesn't want the AFC factored in. Carroll questioned if that was a part of the original proposal from SPOA. Manley said yes. Welsh said that once the study is done the proposal can be modified. These questions are why a study needs to be done. The SPOA is up for adjustments that need to be done in order to make it cost-neutral. Hartman said his concerns are that we are hearing a lot of different ideas. This is more of a complex proposal than the 4-5 pages we have seen on it. We are almost asking Milliman to create this DROP program for us. He said he's hearing 2-3 different proposals and he doesn't think the SPOA has submitted significant plan yet. He's seen some ideas, but he hasn't seen anything that he would consider a solid proposal. Hartman said he's all for taking a look at it. Our first obligation is to make sure there isn't a benefit increase or something that is not cost-neutral to the Plan. He added that if it was a collaborative effort between all parties in paying for the study, it might be a little more appealing. Wichmer jumped in and said that this is a collective bargaining issue. This is not the forum to be talking about it. Steck said that historically, any changes that have been made to this Plan, have always been from a study that this Plan has paid for. Hoffman said that is true for the most part. Wichmer again stated that this is not the forum to discuss this. Rushefsky said there are two issues. The first question is, is there any plan that would be cost-neutral? What they bargain with is a different question. It's a little bit like the chicken and the egg. We don't want them to negotiate some elaborate plan and then find out that it's not cost-neutral. She said it seems to her that it would make most sense to ask if there is a plan that would be cost-neutral. What assumptions can we make that would ultimately make it cost-neutral? Then what happens after that is not our concern unless it is going to cost the Plan money. Rushefsky said you have to figure out what it is that we have to ask to get it cost-neutral.

Dorrell said that his preference is to receive the payments and ROC when they retired and they can continue to work and draw their salary from the City. Hartman said that his concern is that there may be things that we all haven't thought about. Wichmer said that he can't state this more emphatically than he's going to state it. You can take the advice or ignore it. This is how collective bargaining works. The union brings for a proposal and you have your actuary look at it. That is all that should be occurring in this discussion. Right now you all are negotiating. Wichmer said he is opposed to this discussion. He said he can't comment on it. The Board needs to talk to Sheppard, but he's telling the Board that this is not proper. Dorrell asked why a potential DROP program can't be discussed. Wichmer said that because there is no proposal made by the bargaining unit. Dorrell said yes there is. Wichmer said what needs to be done is to have the Board's actuary look at it. That is all that should be occurring right now. Wichmer said he has not heard anything come up through Shelia Maerz. Welsh said that City said that they had no problem with the SPOA taking this to the Pension Board. He said that Martone had them do this. Dorrell said he's not involved in collective bargaining so why as a Board member can he not present something that might have a positive impact on the Plan? Wichmer asked if there has been a proposal vetted by the actuary. Dorrell said no. Wichmer said so now you are negotiating a proposal which was his original point.

Carroll said that he knows right now that the proposal presented is not cost-neutral. Wichmer said that he's limited on what he can say. There has to be a proposal brought up through the process that is then presented to this Board to weigh. That is all this Board is to do. Anything beyond that is negotiating outside the scope of the bargaining unit. Steck said we are back to the original question as to whether to fund the study as it has been proposed. Wichmer said that if they bring you a proposal and they want to have their own study that is one thing. He said he thinks the Board has an obligation to study whatever they propose through the actuary, but that is a Sheppard question. Rushefsky suggested that the Board talk with Sheppard about the parameters the Board should be operating within. Carroll said that if he sees a proposal that he knows is not going to be cost-neutral then he's not going to vote to have the actuary look at it. Rushefsky said she agrees with that. She said the first step is to find out where we operate legally. Cowherd agreed with that. He said that maybe we could ask Milliman if there is any DROP program that is cost-neutral.

Carroll made a motion that Hartman discuss the legal parameters with Sheppard as soon as possible. Discussion: Wichmer asked for clarification from Steck and Welsh. Has there been a specific proposal up through collective bargaining on a specific DROP program? Welsh said yes. Wichmer asked if that is currently what is in front of the Pension Board? Manley said yes. Welsh said that it is still a work in progress, but Martone said he didn't have a problem with the proposal if the Pension Board didn't. Manley asked Wichmer if Milliman can give the Board pros and cons of ways to set a program like this up. Wichmer said it is within the Board's parameter to find out how a DROP program works. Right now your job is to educate yourself. He added that the State's Joint Retirement Committee will require that it be cost-neutral or benefit the Plan if it's not more than 80% funded. There's another set of eyes that will look at this. Manley said that it will probably cost more to have Milliman look at it right now since they are doing our year-end valuation. Wichmer said if the Board is given a proposal that came up through the bargaining units then you have a duty to weigh it. That's a fixed cost you will have to have. Rushefsky said that she doesn't see this as negotiating right now. She thinks that both the Council and Board simply want is to have the best plan on the table that won't adversely affect the Pension Plan. That's the bottom line regardless of the negotiations with the unions. Carter seconded Carroll's motion to discuss the legal parameters with Sheppard. Vote all: Yes.

7. Administrative Director's Report

Manley reported that Walker has gone to two of his three scheduled doctors' appointments for his disability application. There is a good chance that all of the reports will be in by the August meeting.

The audit process has begun. BKD will be meeting with the audit subcommittee soon. Manley asked the Board to tentatively hold the evening of August 13th for a possible meeting with Segal Rogerscasey. The annual Segal Rogerscasey Conference will be held October 22-25. Cowherd made a motion to send up to three people from the Pension Board; 2nd by Carroll. Vote all: Yes.

8. Legal Matters – Closed Session, pursuant to Section 610.021, RSMo.

Hartman made a motion to move to closed session at 10:18 a.m. pursuant to Section 610.021(1, 3, 13, 14) RSMo.; 2nd by Carroll. Vote all: Yes. Open session resumed at 10:42 a.m.

9. COLA

Carroll made a motion to not apply a COLA past the income verification cap; 2nd by Cowherd. Vote all: Yes.

10. Adjournment

Cowherd made a motion to adjourn the meeting; 2nd by Carroll. Vote all: Yes. The meeting adjourned at 10:47 a.m. on July 17, 2014.

 Secretary Signature: ______________________________